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SIPDIS

SENSITIVE BUT UNCLASSIFIED

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SUBJECT: ARMENIA: INCREASING (BUT STILL MODEST) TRADE WITH RUSSIA

¶1. (U) Sensitive but Unclassified. Please protect accordingly

SUMMARY

¶2. (SBU) The Armenian press noted that trade turnover for the first nine months of 2003 between Armenia and Russia increased 84 percent over 2002 levels of the same period and was distributed almost equally among Armenian exports to Russia and Russian exports to Armenia. Despite this statistical increase, actual trade remains at a near constant level and transportation through Georgia as well as a small domestic Armenian market remain the major obstacles for a substantial long-term increase of trade between Armenia and Russia. Although trade turnover between Armenia and Russia increased, in 2003 Russia lost market share relative to Armenia's other major trading partners. End Summary.

RUSSIAN EXPORTS TO ARMENIA

¶3. (SBU) Official statistics from the GOAM showed that the total value of imports from Russia to Armenia during January to September of 2003 was USD 165 million, an increase from USD 118 million during the same period in 2002, placing Russia as the number one exporter to Armenia, with twice the turnover of second place Belgium. Of the USD 47 million increase, USD 37 million was in the import of diamonds. (Note: Diamonds were also a significant component of trade with Belgium. End Note.) Despite growth in Russia's trade turnover with Armenia, Russia lost market share for the second year in a row: Russia's total trade turnover share decreased from 19.2 percent in 2001 to 17.3 percent in 2002 and to 15.5 percent in 2003.

¶4. (SBU) Russian diplomat Aleksandr Zyganov told us that the biggest imports to Armenia from Russia were oil, gas, nuclear fuel and diamonds. He stated that Russia was Armenia's number one trading partner and the trade had increased every year for the past three years. He gave an example of a successful Russian-Armenian joint venture, Armenia Lada, which sells approximately 400 Russian made vehicles a month in Armenia. Other Russian exports to Armenia were wheat, sugar, chemical products and vodka. Despite the statistical increase Zyganov admitted that the small domestic market in Armenia inhibited trade and large-scale Russian investment.

¶5. (SBU) According to Tigran Davtyan, the Deputy Minister of Trade and Economy, the main increase in Armenian imports for 2003 from Russia was in diamonds; he believed the other main exports, oil, gas, and nuclear fuel were about at the same level as 2002. Davtyan felt that the overall statistical 40 percent increase in imports from Russia was misleading as most of the imported diamonds were refinished and re-exported to Belgium and Israel or back to Russia for final sale. Nerves Mkrtchyan, Head of the International Economic Cooperation Department, believed that the increase in diamond imports could be traced back to one Russian-based Armenian businessmen, Ara Abrahamyan. The reason for this spike was unclear to Mkrtchyan; he believed it could have easily been an anomaly and did not represent an overall strategy of increasing trade between Russia and Armenia.

¶6. (SBU) Mrktchyan, as well as Gagik Hairapetian, the Russian desk officer at the Armenian Ministry of Foreign Affairs, felt that while refined oil was a major Russian import, the country of origin of oil imports at the Georgian port of Poti was not always clear. Management of MIKA, a gas station franchise that owns roughly 50 percent of the Armenian domestic market, told Hairapetian that up to half of the fuel sold by MIKA comes from either Romania or Turkey.

ARMENIAN EXPORTS TO RUSSIA

17. (SBU) Official GOAM statistics show that from January to September of 2003, Armenian exports to Russia equaled USD 64 million, as compared to USD 46 million. Of the USD 18 million increase, USD 6 million was refinished diamonds. Zyganov said that Armenian exports consisted of cognac, vegetables, fruits, cheese, tobacco, metals, light machinery, chemicals, and even Armenian beer. Hairapetian stated that since many Armenian farmers do not have money for fertilizers, there was also a demand for their environmentally friendly food products in Russia. The USDA has encouraged this trend by helping found the Armenian Organic Agriculture Foundation (AOAF) as well as offering a USDA-Extension mini-grant program that encourages an organic component for crop production as well as livestock. Hairapetian stated that a soon-to-be-opened Armenian consulate in Southern Russia, coupled with good cooperation with local Russian officials, a large Armenian Diaspora, and cheaper costs of transporting goods to southern Russia than to the Moscow region, all contributed to higher import demand. Hairapetian and Mkrtchyan both felt the expanding Russian economy would always be an outlet for Armenian goods.

COGNAC: NUMBER ONE EXPORT

18. (SBU) The Sales Manager of the Yerevan Brandy Company (YBC), Serge Der-Sahaggian told us that 80 percent of their export market was in Russia. In 2003 they exported approximately 6.4 million bottles, or tens of millions of dollars worth of brandy, which made cognac the leading export item to Russia. Der-Sahaggian stated that the YBC and its competition, Great Valley, constitute about 90 percent of the Armenian export brandy market in Russia. The YBC shipped all their products through the Georgian port city of Poti, and despite the uncertain political climate in Georgia, the YBC had no plans to curtail exports. Der-Sahaggian and Haripetian were optimistic that tariffs and duties and corrupt practices would finally be lowered and/or minimized under a new reform-minded Georgian government.

OBSTACLES TO INCREASED TRADE

19. (SBU) Der-Sahaggian, Zyganov, Hairapetian and Mkrtchyan all agreed that high tariffs, corruption, encounters with Georgian criminal groups and the uncertainty of goods transiting unmolested through Georgian customs all combined to make exporting goods from Armenia to Russia through Georgia a substantial obstacle to increased trade with Russia. Hairapetian and Zyganov both strongly believed that a railroad link through the breakaway republic of Abkhazia could boost trade between the nations significantly. Zyganov believed that Armenian cement and construction materials could be sold in Russia as well as an increase in exporting fruit, vegetables, foodstuffs, and cheese. Russia could also export more wheat, sugar and oil. All agreed that politically this rail link was unlikely to be opened anytime soon. Zyganov stated that in March of 2003, Russian President Putin and former Georgian President Shevardnadze had agreed to build a new railway through Georgia to link Russia and Armenia, but this was still in the discussion stage.

COMMENT

110. (SBU) While Russia is clearly Armenia's most significant trading partner, any hope for significant growth in real trade will depend on improving transportation links between the two countries, a prospect unlikely in the near future.
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